

## Outlook

**Currency:** A bullish end to the week is expected for the NZD against a backdrop of a weaker USD. Selling interests around 0.7650 may be tested if the AUD can break new ground.

**Bonds:** Expect local yields to open unchanged this morning.

**Today:** No local data today.

## Review

**Currency:** Moves in the NZD were underpinned by the continued hawkish undertones expressed in the RBNZ OCR Review yesterday. A weaker USD helped to provide the move higher overnight as sellers stood aside.

**Fixed Income:** US Treasury debt prices were largely unchanged overnight as data showed new home sales rose, while durable goods orders were weak. Markets fully expect the Fed to cut interest rates next week.

**Equities:** US stocks fell overnight on soft durable goods data as well as some poor earnings reports. Lingering concerns over the financial sector remain after Merrill Lynch's loss announcement yesterday.

**Commodities:** Oil prices surged higher again overnight after a slide in US inventories raised supply concerns. New sanctions imposed by the US against Iran also contributed to the higher prices.

### MAJOR MARKET MOVERS (0715 NZ TIME)

	Level		Change
NZD/USD	0.7605	↑	0.0050
NZD/AUD	0.8380	↑	0.0018
AUD/USD	0.9069	↑	0.0034
EUR/USD	1.4316	↑	0.0051
USD/JPY	113.89	↓	-0.31
GBP/USD	2.0501	↑	0.0002
CRB Futures	341.6	↑	5.5
Oil (WTI)	91.99	↑	3.82
Gold	768.20	↑	6.65
DJIA	13612	↓	-63.0
S&P 500	1501	↓	-14.8
NASDAQ	2748	↓	-26.4
S&P VIX	22.39	↑	1.59
US 2 year	3.73	↑	0.02
US 10 year	4.35	↑	0.03

### DATA RELEASES (EXPECTATIONS IN BRACKETS)

- > **US Durable Goods Orders (Sep):** -1.7% (1.5%)
- > **US Durables Ex-Transportation (Sep):** 0.3% (0.7%)
- > **US Initial Jobless Claims (Oct 21):** 331k (320k)
- > **US Continuing Claims (Oct 14):** 2,530k (2,528k)
- > **US New Home Sales (Sep):** 770k (770k)
- > **US New Home Sales m/m (Sep):** 4.8% (-3.1%)
- > **GE IFO – Business Climate (Oct):** 103.9 (103.7)

### COMMENTS / EVENTS

- > **Bank of England Financial Stability Report:** *"In the short run, the financial system in the advanced economies remains vulnerable to further adjustments, whether in credit markets ... or, for example, in the equity or commercial property markets."*

### KEY THEME

- > **US bond market treads water on mixed data.** US Treasury debt prices were largely unchanged overnight after data released painted a mixed picture on the outlook for the economy. New home sales unexpectedly rose in September. However, previous month's results were revised downward (with August in fact hitting an 11-year low). The underlying trend remains one of weakness and it is apparent (given the weakness in the USD) that markets are expecting further soft housing market data over coming months. Just as with the home sales data, the headline results in the durable goods report were also somewhat misleading. Although September durable goods orders fell more than expected, bookings for non-defence capital goods excluding aircraft, a proxy for future business investment, rose 0.4 percent after a 0.1 percent decrease the prior month. The level is still a step down from say a year ago, but it looks as though capital spending will provide a base of support for the US economy, at least in the short-term. After the significant rally in bond markets yesterday it now appears markets are in consolidation-mode as investors await the FOMC decision next week.
- > **NZD well supported.** Although the Reserve Bank left interest rates unchanged yesterday and the statement delivered was relatively balanced, familiar hawkish undertones towards inflation pressure were still present. Inflation risks (with fiscal policy getting particular mention) all appear to be skewed to the upside, and suggest any monetary policy easings will be some way off. This, along with a weak USD, provided plenty of support for the kiwi overnight, which at one stage rose above US0.76. A stronger AUD is also dragging the NZD higher. This strength came despite the Dow, which the NZD has been following surprisingly closely over the past few months, falling overnight on continued credit concerns.

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**CURRENCY RATES  
(NZ Open)**

	Range	Mid vs USD	vs NZD
EUR	1.425-1.4344	1.4316	0.5310
JPY	113.89-114.57	113.9	86.62
GBP	2.0455-2.0554	2.0500	0.3709
CHF	1.1636-1.1725	1.166	0.8866
CAD	0.9615-0.9693	0.9663	0.7349
AUD	0.9012-0.9082	0.9068	0.8380
NZD	0.7529-0.7623	0.7605	---
TWI	70.18-70.96	---	---

**INTEREST RATES  
(NZ Open)**

New Zealand	%	Change
OCR	8.25	0.0
90 days	8.64	2.0
15/07/2009	7.01	-2.0
15/12/2017	6.32	-2.0
1 yr (S)	8.76	2.3
2 yrs (S)	8.56	1.5
3 yrs (S)	8.36	1.5
4 yrs (S)	8.20	1.8
5 yrs (S)	8.07	1.8
7 yrs (S)	7.89	2.0
10 yrs (S)	7.71	2.2
<b>Australia</b>		
90 days	6.97	9.3
10 yr bond	6.06	-8.2
<b>US</b>		
Fed Funds	4.75	0.0
2 yr	3.73	2.0
10 yr	4.35	2.7

**EQUITY MARKETS**

	Level	Change
DJIA	13608.0	-67.2
S&P 500	1501.1	-14.8
NASDAQ	2748.2	-26.6
FTSE	6576.3	94.3
Nikkei	16284.2	-74.2
NZX 50	4267.1	-23.9

**COMMODITY MARKETS**

	Level	Change
Oil – WTI	91.99	3.82
Oil – Brent	84.94	1.93
Gold	768.30	4.80
CRB Futures	341.59	5.46

**CURRENCY**

**Review**

> **NZD:** Plenty of support for the NZD against a backdrop of further USD weakness. Inflation concern comments from the RBNZ Governor Bollard yesterday ensured that dips in the NZD were extremely hard to come by yesterday. Overnight it was a one way move led by the NZD as further poor US data set the scene.

**Outlook**

> **NZD: If further fiscal easing arrives?**

With an election year approaching and a relatively large surplus expected for the Government it must be a case of when rather than if for further fiscal easing. That said support for the NZD will also come from yield demand and more USD weakness. For today selling interests around 0.7650 may come into question.

**Expected range today 0.7575 – 0.7665**

> **NZD/AUD: Key level 0.8333 holds...again**

The key downside level is providing some support for this cross as market participants at this point believe a move lower is not warranted. Perhaps next week's economic data on both sides of the Tasman may change their views.

**Expected range today 0.8350 – 0.8425**

> **NZD/EUR: US data fails to inspire**

US September new home sales were up 4.8% on August but only after a downward revision of 8.2% to the initially reported August number. With comments on new sanctions from US on Iran the geopolitical scene is heating up and that can only deliver further USD weakness. This cross should attempt a move towards 0.5350.

**Expected range today 0.5295 – 0.5345**

> **NZD/JPY: Japanese September CPI**

Japanese CPI could surprise markets today and deliver some JPY strength. While this is unlikely to deliver any new levels for the cross it may have some thinking about the BoJ interest rate review next week.

**Expected range today 85.75 – 87.25**

> **NZD/GBP: NZD strength leads**

NZD is leading the moves here with another leap above 0.37 overnight. With little by way of UK data in the short-term, support at 0.3650 looks safe for now.

**Expected range today 0.3685 – 0.3745**

**INTEREST RATES**

**Review**

> The RBNZ OCR *Review* was the major focus yesterday. The statement was broadly neutral and similar to September's whilst outlining potential risks for inflation. Of note was the warning shot for the government of the inflation risks associated with their fiscal policy. Over the remainder of the day it was the statements on fiscal policy that hung in the minds, and pay side pressure dragged the short end and IRS curve a couple of points higher.

> US Treasury debt prices were largely unchanged overnight as data showed new home sales rose, while durable goods orders were weak. Markets fully expect the Fed to cut interest rates next week.

**Outlook**

> The local interest rate market is back to trading the ranges and off the partial data. Just like the RBNZ, we are in wait-and-see mode.

**EQUITY MARKET**

**Review**

> US stocks fell overnight on soft durable goods data as well as some poor earnings reports. Lingering concerns over the financial sector remain after Merrill Lynch's loss announcement yesterday.

**COMMODITY PRICES**

**Review**

> Oil prices surged higher again overnight after a slide in US inventories raised supply concerns. New sanctions imposed by the US against Iran also contributed to the higher prices.